



United States  
Department of  
Agriculture

## Commodity Operations

### **Background**

The Farm Service Agency's (FSA) Commodity Operations mission area handles the acquisition, procurement, storage, and distribution of commodities, and the administration of the U. S. Warehouse Act (USWA). It helps achieve domestic farm program price support objectives, produces a uniform regulatory system for the storage of agricultural products, and ensures the timely provision of food products for domestic and international food assistance programs and market development programs.

### **Basic Responsibilities**

The office of the Deputy Administrator for Commodity Operations (DACO) is responsible for delivering quality products and customer service in storage, handling and final distribution of commodities. DACO personnel are involved in the storage, management, and disposition of the Bill Emerson Humanitarian Trust grain that is used to meet humanitarian needs abroad.

Commercial warehouse operators, either regulated by USDA, or who store commodities pledged as loan collateral or owned by the Commodity Credit Corporation (CCC) are required to meet certain financial standards and maintain

physical warehouse facilities capable of handling and storing agricultural commodities. These warehouses are periodically inspected to ensure that requirements are fulfilled.

Warehouse operators who are Federally licensed under the USWA pay a portion of the cost associated with warehouse activities via user fees. DACO employees work closely with commercial trade partners in all aspects of Commodity Operations activities.

The merchandising staff located in the Kansas City Commodity Office (KCCO) provides price discovery mechanisms not only for FSA use, but for most USDA operations in bulk grains, cotton, oilseeds, and rice. Each business day, the commodity office tracks 18 commodities in 33 terminal market locations. These terminal market prices are then "backed-off" using a system of localized market differentials to over 3,000 locations nationwide to provide marketing loan repayment rates for each of 18 supported commodities.

### **Commodity Procurement**

Commodity procurement includes supplying food assistance through domestic and foreign feeding, as well as humanitarian aid programs. In fiscal year 1999, approximately

8 million metric tons of commodities valued at approximately \$1.8 billion were procured and distributed to improve the nutritional welfare of adults and children worldwide.

KCCO is responsible for the procurement, transportation, and disposition of food commodities to fulfill USDA program commitments. Private industry works in partnership with USDA and other Government agencies to supply the various programs with high-quality, nutritious products that meet program requirements. DACO employees are called upon to quickly distribute food from Government warehouses and sometimes make special purchases of food as part of disaster relief efforts. DACO employees also provide administrative support to USDA's Agricultural Marketing Service (AMS) for processing shipment information and making payments to vendors for commodities procured by that agency.

Under the National School Lunch Act and the Emergency Food Assistance Act of 1983, DACO employees help to provide nutritious foods to school children and others in the U. S. DACO procures commodities such as dairy products, processed grain products, peanut products, and vegetable oil for domestic food distribution programs.



When surplus commodities are available, agency personnel aid in the donation of Government-owned commodities for use in feeding programs using CCC authority and the procurement, distribution, and invoicing of commodities on behalf of USDA's Food and Nutrition Service (FNS) and the Foreign Agricultural Service (FAS).

FNS administers domestic food distribution programs that include: the National School Lunch Program; elderly, disaster, and emergency feeding programs; food aid to Native Americans living on reservations; and other programs that help individuals in need.

AMS also procures commodities, including meats, fish, fruits, vegetables, and poultry for domestic food distribution programs.

In 1995 the reauthorization of the National School Lunch Act authorized USDA to purchase food products using "State" monies. This new authority has the potential of increasing the amount of USDA food purchases by at least \$1 billion.

### ***Foreign Humanitarian and Development Assistance Programs***

DACO procures commodities on behalf of the Agency for International Development (AID) and USDA's FAS for overseas humanitarian and developmental use.

### ***Program Descriptions***

Title II, P.L. 480 — Provides for the donation of agricultural commodities to meet emergency and nonemergency food needs.

Title III, P.L. 480 — Provides for government-to-government grants to support long-term growth in agriculture and related activities in lesser developed countries.

Food for Progress — Provides commodities to support countries that have made commitments to expand free enterprise in their agricultural economies.

Section 416(b) — Permits donations of food and feed commodities owned by CCC for humanitarian assistance overseas.

Commodity Operations also procures commodities for a specially-funded AID program that targets women and children at risk nutritionally in several republics of the Former Soviet Union.

### ***Dairy Price Support Program***

Under the authority of the Agricultural Act of 1949, as amended, national policies and procedures are formulated and administered through the Dairy Price Support Program. In order to stabilize domestic dairy prices as required by law, dairy products are purchased at announced prices under this program. DACO employees arrange for warehouse storage, transportation, handling, and

inspection of the dairy products until the commodities are used in domestic or foreign feeding programs or sold by CCC.

### ***Contract Management and Technical Support Projects***

DACO personnel work closely with other agency, private sector, and academia groups to develop product specifications that provide domestic and export program recipients with safe, wholesome, nutritious foods equivalent to the best in the industry. In addition, DACO employees work closely with academia and the packaging industry to ensure that types of packaging systems used are cost effective and adequate for the types of handling expected to occur.

### ***U. S. Warehouse Act***

The USWA provides depositors with reliable protection; produces a uniform regulatory system for storage of agricultural products; provides for warehouse receipts that are evidence of ownership and can be used as loan collateral; and requires warehouse operators to accept agricultural products for storage and without discrimination.

To qualify for a Federal license, a warehouse operator must have a suitable and properly maintained warehouse; have a good business reputation and a minimum net worth; furnish an acceptable bond; and employ qualified personnel to weigh, sample, inspect, and grade commodities.



***Warehouse/Commodity Examination Operations***

DACO personnel, under the authority of the USWA and the CCC Charter Act, examine warehouses licensed under the USWA, as well as State-licensed and nonlicensed warehouses storing CCC-owned commodities or producer-owned commodities pledged as loan collateral to CCC. Examiners periodically make unannounced examinations of the facilities, commodities, and warehouse

records to ensure protection of all depositors, including the U. S. Government, against potential losses in quality and quantity of the stored commodities and to ensure compliance with the USWA and any CCC storage agreements. These examinations provide the foundation for industrywide confidence in the integrity of warehouse receipts and facilitate the orderly marketing of agricultural products. The examination functions are supported by fees collected from the warehousing industry and CCC.

In addition, because of the integrity of the Federal licensing and examinations programs, USWA-approved warehouse receipts issued to depositors are widely accepted at all major commodity exchanges, such as the Chicago Board of Trade and the Kansas City Board of Trade. During fiscal year 1999, DACO spent approximately \$7.1 million conducting warehouse examinations, thus protecting assets of depositors, including CCC, totaling \$25 to \$30 billion worth of commodities.

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